THE FRITO COMPANY

Fritos
REG. U. S. PAT. OFF.

1958 ANNUAL REPORT

1958 ANNUAL REPORT . . . . THE FRITO COMPANY

Executive Offices
Exchange Bank Building
100 Exchange Park North
Dallas 35, Texas

DIRECTORS

C. E. Doolin
President, The Frito Company

William D. Baird
Assistant to the President, Mrs. Baird's Bakeries, Inc.

Chas. E. Beard
President, Braniff Airways, Incorporated

R. V. Dancey
Vice President, The Frito Company

Jack Johannes
Vice President and General Counsel, The Frito Company

Emil Jurica
Treasurer, The Frito Company

Tracy Nelson
Partner, Nelson and Nelson, Accountants

E. L. Nicolay
Vice President, The Frito Company

C. B. Peterson, Jr.
President, Texas Bank and Trust Company

H. H. Rousseau
Vice President, The Frito Company

Fladger F. Tannery
Senior Vice President, The Frito Company

John D. Williamson
Executive Vice President, The Frito Company

OFFICERS

C. E. Doolin
President

John D. Williamson
Executive Vice President

Fladger F. Tannery
Senior Vice President

E. L. Nicolay
Vice President

R. V. Dancey
Vice President

Jack Johannes
Vice President and General Counsel

John R. McCarty
Vice President

H. H. Rousseau
Vice President

Emil Jurica
Treasurer

W. Lamar Lovvorn
Secretary and Controller

Ernestine Putnam
Assistant Secretary

Auditors
Arthur Young & Company
Dallas, Texas

Registrar and Transfer Agent
Texas Bank & Trust Co.
Dallas, Texas

1958

THE FRITO COMPANY SUMMARY OF PROGRESS

	(Nearest $1,000) 1958	1957	1956
NET SALES	$51,257,000	$45,632,000	$40,586,000
INCOME BEFORE TAXES	3,226,000	3,088,000	2,296,000
FEDERAL AND STATE TAXES ON INCOME	1,694,000	1,563,000	1,156,000
NET INCOME	1,532,000	1,525,000	1,140,000
Shares of Common Stock Outstanding at End of Year	764,399	751,309	740,870
EARNINGS PER COMMON SHARE			
Before Taxes	4.22	4.11	3.10
Provision for Income Taxes	2.22	2.08	1.56
Net	2.00	2.03	1.54
CASH DIVIDENDS	568,000	309,000*	348,000
STOCKHOLDERS' EQUITY	8,625,000	7,469,000	6,772,000
BOOK VALUE PER SHARE	11.28	9.94	9.14
NET WORKING CAPITAL	3,965,000	1,407,000	1,703,000
CURRENT RATIO	1.92	1.29	1.46
PROPERTY, PLANT AND EQUIPMENT			
Cost	12,921,000	9,334,000	7,451,000
Accumulated Depreciation	3,977,000	2,716,000	2,302,000
Net	8,944,000	6,618,000	5,149,000
DEPRECIATION AND AMORTIZATION	991,000	713,000	555,000
TOTAL ASSETS	$17,705,000	$13,303,000	$11,185,000

*In addition, a 5% stock dividend was declared December 11, 1957, and was paid January 31, 1958.

The above summary combines, for the years 1956 and 1957, the consolidated operating results of the Company for each such calendar year with those of Nicolay, Dancey Inc. (acquired in a pooling of interests as of May 3, 1958) for its fiscal year ending the following April 30; for the year 1958 the calendar year results of both are combined.

PRESIDENT'S LETTER

TO THE SHAREHOLDERS OF THE FRITO COMPANY:

The year 1958 was definitely a year of significant growth for The Frito Company. It is therefore gratifying to have an opportunity to tell you about some of the accomplishments of your Company in 1958.

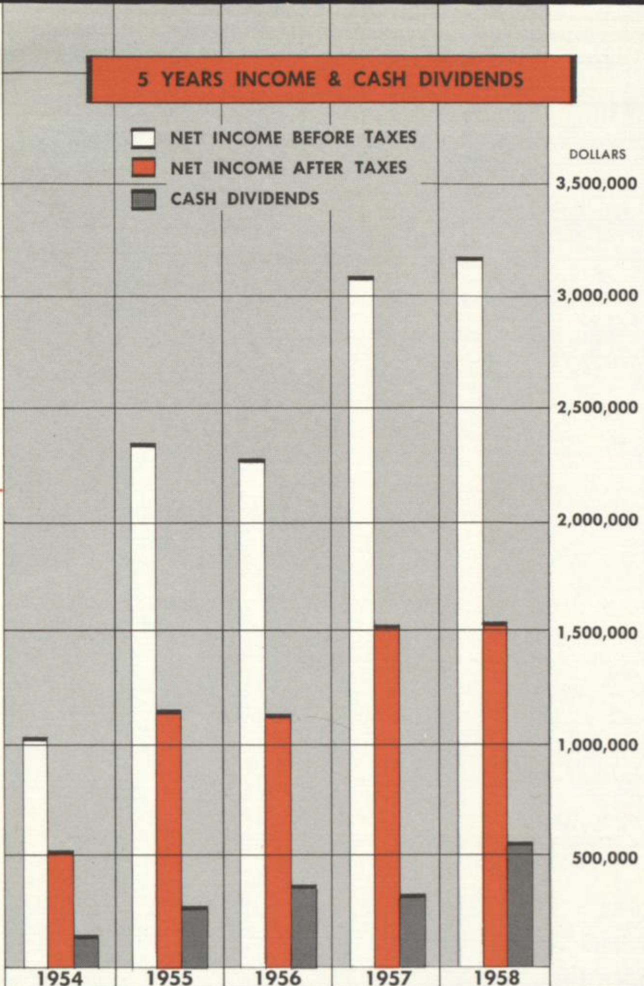
During the year, a few well-established and highly reputable companies in the potato chip industry became a part of The Frito Company. This allowed the Company to expand its operations into market areas that are vital to its future in the food industry. As a result, the sales volume was greatly increased and the operating divisions, which manufacture and distribute the Company's products through a highly developed system of driver-salesmen, were strengthened.

Other significant events during the year included the development and introduction of new products, the installation of more efficient automatic production machinery and the negotiation of a long-term unsecured loan with a syndicate of five nationally-known commercial banks.

FINANCIAL RESULTS Net earnings of $1,531,873 in 1958 were equivalent to $2.00 per share, after taxes, based on 764,399 shares outstanding at the end of the year. The net earnings per share after taxes for 1957 were $2.03 based on a smaller number of shares of 751,309. Cash dividends were paid during the year on outstanding shares at the rate of 80¢ per share – a 33⅓ per cent increase over the 1957 dividend rate of 60¢ per share. In addition to the 1958 cash dividends, a 5 per cent stock dividend declared in December, 1957 was paid in January.

The earnings figures for 1957 and 1958 include the operating results of Nicolay-Dancey, Inc., inasmuch as it became a part of The Frito Company under the business concept of "pooling of interests." The application of this concept requires the Nicolay-Dancey financial operations for both years to be included in all figures in order to make the comparisons meaningful even though the combination was not effected until May, 1958. The graph on the opposite page shows the earnings growth of the two organizations combined for the five-year period 1954 through 1958 and includes earnings of companies acquired other than by pooling of interests from the dates of acquisition. The graph also reflects the increase in dividends paid during the past five years.

In December, the Company completed negotiations with a syndicate of banks for an unsecured loan of 4.5 million dollars. Five well-known commercial banks form this syndicate; namely, Texas Bank & Trust Company of Dallas, Bankers Trust Company (New York), Manufacturers National Bank of Detroit, Continental Illinois National Bank & Trust Company of Chicago, and Bank of America National Trust & Savings Association of Los Angeles. The loan proceeds were used to retire and consolidate the Company's outstanding bank notes and long-term indebtedness and to supplement its general working capital funds.



The above includes, for each year shown, the income and dividends of Frito New York, Inc., and Nicolay-Dancey, Inc., which were merged with The Frito Company on April 30, 1956, and May 3, 1958, respectively, by the pooling of interests. The income and dividends of companies acquired other than by merger are included from dates of acquisition. In addition to the cash dividends shown, the Company declared a 5% stock dividend in 1957.

1958

SALES AND PRODUCT PROMOTION Total sales for the year reached a new high of $51,256,510 compared with $45,632,007 for the preceding year. This is a gain of 12 per cent and represents the twenty-fifth consecutive year in which the total dollar sales increased over the previous year. The increase in sales in 1958 was the result of acquisitions, the growing per capita consumption of FRITOS corn chips and the Company's aggressive merchandising programs for potato chips and other products.

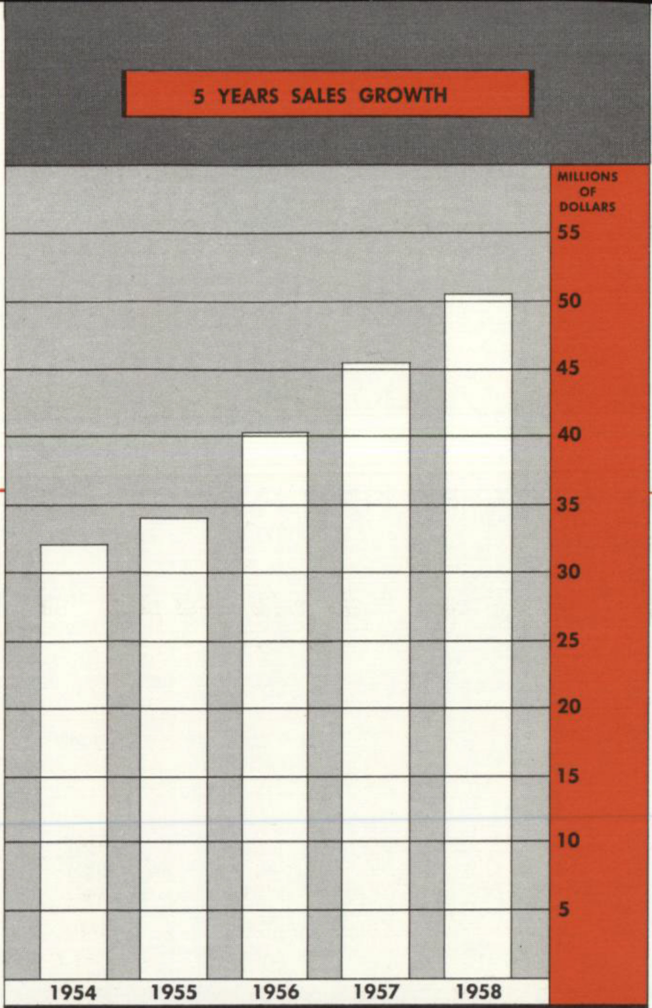
Sales of FRITOS, the only nationally-distributed corn chip, increased 15 per cent, including both the territories served by the Company and by franchised licensees. While the Company, its subsidiaries and licensees still enjoy the dominant position in corn chip sales nationally, competition continues in certain areas from local and regional producers.

Potato chip sales increased considerably, due in a large part to the acquisition of three major potato chip companies. (See Page 6.) The Company, however, did enjoy a substantial increase of 17 per cent in potato chip sales in the Southwestern and Western divisions which areas were unaffected by the companies acquired. While the Company's potato chip sales continue to increase, the volume is relatively small in proportion to total potato chip sales in the United States. Competition remains strong but highly localized because of local brand popularity.

The Company now manufactures and distributes the following six brands of high-quality potato chips in the areas indicated:

NEW ERA	Great Lakes region
TA-TOS	Southwestern and parts of the Western states
CRISPIE	San Joaquin Valley and San Francisco Bay area
NUM NUM	Cleveland, Ohio and surrounding trade territory
JUPITER	New York and Eastern seaboard states
RUFFLES	(See paragraph below)

During the year, the Company acquired the trademark right to a particular type of waffle-style potato chip known as "Ruffles." This product is now being produced in Company plants in Texas, Ohio, Michigan, and California for distribution through its sales organ-



The above includes, for each year shown, the sales figures of Frito New York, Inc., and Nicolay-Dancey, Inc., which were merged with The Frito Company on April 30, 1956, and May 3, 1958, respectively, by the pooling of interests. The sales figures of companies acquired other than by merger are included from dates of acquisition.

ization. It is also distributed in Chicago, Indiana, Arizona and parts of Canada under licensee agreements. Ruffles is fast becoming a nationally-known and popular potato chip.

FRITOS Brand Corn Wafers, another new product of the Company, was introduced in a test-market area late in 1958. The results of this test are now being evaluated and further market testing of the product will be made in 1959.

The sales trend for the past five years is pictured in the graph shown on this page. This graph has been prepared following the same principle of pooling of interests with regard to mergers and acquisitions in recent years as explained in connection with the graph shown on Page 5 relating to earnings and dividends.

Advertising and merchandising programs were intensified during the year both on national and local levels. A segment of the Arthur Godfrey CBS network radio show was sponsored. Also, nationwide tie-in promotional campaigns were conducted with The Kraft Foods Company, The American Dairy Association and the Cling Peach Advisory Board. Radio, television, outdoor and point-of-sale advertising programs were utilized on a divisional level. The follow-on of the 1958 advertising programs was assured with the Company's co-sponsorship with General Mills, beginning in January of 1959, of The Lone Ranger television show on the ABC network.

EXPANSION OF OPERATIONS The Company, for a number of years, has been gradually expanding its successful plan of driver-salesman distribution of products into markets of the Eastern, Northern and Great Northwestern areas. During 1958, this expansion program was greatly accelerated, particularly in the Great Lakes region and in the San Francisco Bay-Stockton, California area by three outstanding driver-salesman distribution systems obtained in the acquisition of three potato chip companies.

The largest of these was Nicolay-Dancey, Inc., established in 1926, which headquartered in Detroit, Michigan. This company was one of the nation's leading potato chip manufacturers with a driver-salesman system of distribution in the cities of Detroit and Chicago and in the Great Lakes area where its brand name, "New Era," is the symbol of high-quality potato chips. By the exchange of stock through the "pooling of interests," Nicolay-Dancey, Inc. became a

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wholly-owned subsidiary and its corporate name was changed to The Frito-Nicolay, Dancey Company. Messrs. E. L. Nicolay and R. V. Dancey, founders of the company and recognized leaders in the potato chip industry, became active directors and vice presidents of The Frito Company.

All of the outstanding stock of Num Num Foods, Inc. of Cleveland, Ohio and its companion company, Orchard Sales Company, was acquired for cash in September. The Orchard Sales Company was merged into Num Num Foods, Inc., which became a part of the Nicolay-Dancey Division. This company, organized in 1919, like Frito and Nicolay-Dancey, started with a limited amount of capital. It has grown to be a well-established firm in the potato chip and pretzel industry with favorable consumer acceptance of its high-quality Num Num brand products in the city of Cleveland, Ohio and surrounding trade territories.

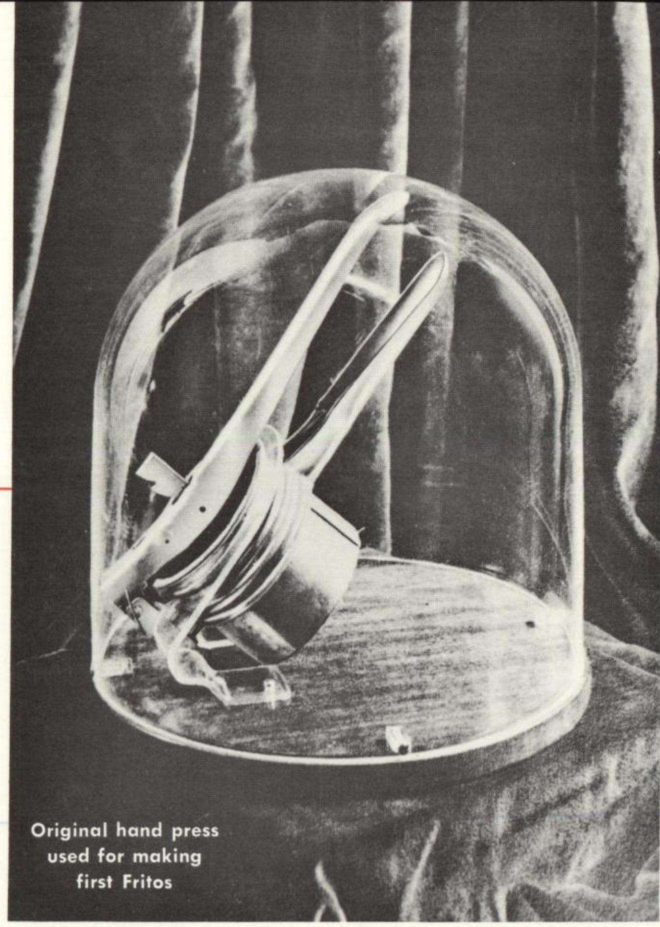
Plans were made early in the year to establish a sales organization in the San Francisco Bay area, and in June the Company acquired the Crispie Potato Chip Company of Stockton, California as a nucleus for this expansion. The Company now has 60 driver-salesmen serving the markets in this area with FRITOS corn chips and Crispie and Ruffles brands of potato chips. The Crispie Potato Chip Company, organized in 1933, enjoyed a most enviable reputation in its trade areas for its high-quality Crispie brand chips. Since acquisition, this company has been dissolved to form the Crispie Division of The Frito Company.

In July, 1958, the Company acquired Frito Tri-State Corporation, a small franchised operation which was surrounded by the Company's Eastern Division trade territory. This company, by dissolution, became a part of the Eastern Division and thereby gave the Company direct representation through a driver-salesman distribution plan in the city of Philadelphia and surrounding trade territories.

NATIONAL ORGANIZATION After these acquisitions, the Company realigned the territories of its several operating divisions in order to provide integrated supervision to production and sales activities throughout the United States. In addition to the executive offices in Dallas, the Company now has six operating divisions as outlined on the map shown on Page 13, with headquarters as indicated below:

Southwestern Division, Dallas, Texas
Western Division, Los Angeles, California
New Era Division, Chicago, Illinois
Nicolay-Dancey Division, Detroit, Michigan
Eastern Division, Mamaroneck (New York City), New York
Crispie Division, Stockton, California

A functional outline of the Company's organization is shown by the chart on Page 14. This chart indicates four major functions; namely, the trustee function represented by the Board of Directors elected by and responsible to the stockholders; the executive function directed by officers responsible to the Board of



Original hand press used for making first Fritos

Directors; the coordination and planning function exercised by the national staff in Dallas responsible to the executive officers; and the manufacture and sales operations, performed by six field divisions, headed by general managers responsible to the executive officers of the Company. Each division manager is assisted by a production manager, a general sales manager and key supervisors of such functions as accounting, merchandising, market analysis, and personnel. All of the production and sales activities are conducted at these divisional levels through an organization of twenty-three manufacturing plants and approximately eleven hundred driver-salesmen.

PLANT IMPROVEMENT The Company continued its program of modernization and automation of production processes by the expenditure of $2,642,766. This amount compares with $2,339,329 in 1957. (The figures for both years include the total capital expenditures of The Frito Company and Nicolay-Dancey, Inc. because of the application of the pooling of interest concept). The major 1958 improvements include the construction of a new plant in Chicago with divisional offices and up-to-date machinery for the manufacture of New Era potato chips; completion of a new wing and installation of an additional FRITOS production line in Los Angeles; installation of the latest available automatic packaging machines in four plants in the Southwestern Division and in the Los Angeles plant; and purchase of salesmen's trucks and cross-country transport equipment required to serve new market outlets.

The Company acquired several plants by means of the merger of Nicolay-Dancey, Inc. and the acquisition of Crispie Potato Chip Company and Num Num Foods, Inc. One of the plants, which is a very modern facility, is located in Wooster, Ohio for the manufacture of New Era and Ruffles potato chips. This plant is situated on a plot of ground of more than 250 acres which is available for future expansion. The Num Num potato chip plant in Cleveland is a most modern building equipped with up-to-date machinery for the manufacture of potato chips. The Nicolay-Dancey potato chip plant in Detroit is large and strategically located to serve a large number of salesman trucks with minimum off-territory traveling.

RESEARCH During the year, the Company continued its long-range program of research in the development of new manufacturing techniques designed to streamline production processes, reduce production costs, and to improve quality of products. To aid in this experimental work, there was established in the Research Department a pilot plant for testing new equipment and techniques. The Company's own research staff was augmented by the engagement of outside consultants for specialized projects.

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EMPLOYEE RELATIONS It is a long-established policy of the Company to share the cost of a number of welfare programs for the benefit of employees. These include a retirement income plan and programs designed for the protection of employees and their families from hardships due to accident, illness and death. Similar programs existed to some extent in the companies which were acquired during the year. Accordingly, in 1958, many changes were made in these employee programs in order to establish uniform benefits for all employees and to up-date the programs to meet the requirements of current economic conditions.

The Company provides group life insurance in an amount that approximates the employee's annual salary; additional insurance is available at very low rates on an employee-contributory plan. The retirement plan provides financial assistance after retirement based on length of service and average level of income.

In addition to these benefits, the Company encourages employees to continue their education by sharing with the employee the cost of courses related to his or her field of work. Uniforms are furnished employees where required by the nature of the work. The Company provides for paid holidays and vacations and encourages employees to participate in civic and community work.

The skill, loyalty, dependability and cooperation of employees have been of great importance in the growth of the Company. The Company is therefore proud of the faithful service and quality of its 3,140 employees. The management of the Company believes that if it makes every effort to provide steady work for all employees, they will continue to respond with faithful service. The total salaries, wages and commissions paid during the year to this group amounted to $13,931,000, equivalent to 27 per cent of the Company's net sales.

THE OUTLOOK A look into the future of The Frito Company certainly must consider our nation's economic structure, the past accomplishments of the Company and its present financial and organizational strength. The past twenty-six years record a history of continuous growth and, as described in the preceding paragraphs, 1958 was a year of expansion with a view of future growth. The Company's financial condition is sound and its organizational structure geared to present operations seems flexible enough to absorb further growth and expansion. The public acceptance of our products is exhibited by the upward trend in sales, and the first few periods of operations in 1959 indicate that our earnings are pointed in a favorable direction. The management of the Company has a confident and optimistic feeling concerning the future of our national economy and the continued progress and growth of your Company.

Sincerely

President

BALANCE SHEET

December 28, 1958

ASSETS

Current assets:		
Cash		$ 2,014,929
Receivables, less $119,530 allowance for losses and discounts		2,586,353
Inventories, at cost (first-in, first-out or standard), which is not in excess of market:		
Finished goods	$ 1,070,754	
Raw materials, supplies and other	2,280,238	3,350,992
Prepaid expenses		334,119
Total current assets		8,286,393
Investment in unconsolidated subsidiary, 51% owned, at cost (not in excess of equity)		48,450
Property, plant and equipment, at cost (Note 2)	12,921,353	
Less accumulated depreciation	3,977,210	8,944,143
Trademarks, patents, formulas, franchises, etc.		1
Deferred charges and other assets (Note 1)		426,345
		$17,705,332

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities		$ 2,878,375
Federal and state income taxes		1,229,434
Dividend payable January 30, 1959		152,880
Long-term debt due within one year		60,255
Instalment notes payable and accrued interest, originally due 1959 to 1965, less $596,771 deposited with trustee		–
Total current liabilities		4,320,944
Long-term debt, due after one year (Note 3)		4,680,922
Deferred federal income taxes (Note 2)		78,076
Shareholders' equity:		
Common stock, $5 par value, 1,000,000 shares authorized, 764,399 shares outstanding (Note 4)	$ 3,821,995	
Capital in excess of par value (Note 5)	231,030	
Retained earnings (Note 3)	4,572,365	8,625,390
Commitments and contingent liabilities (Note 6)		
		$17,705,332

See accompanying notes.

STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 28, 1958

Net sales		$51,256,510
Cost of sales		32,810,888
Gross profit		18,445,622
Selling, delivery, general and administrative expense		15,154,562
Operating profit		3,291,060
Other income (deductions):		
Interest expense		(124,882)
Miscellaneous — net		59,978
Income before income taxes		3,226,156
Provision for federal and state income taxes (including $58,923 deferred taxes)		1,694,283
Net income		1,531,873
Retained earnings at beginning of year:		
The Frito Company	$2,396,180	
The Frito-Nicolay, Dancey Company (Note 1)	1,826,658	4,222,838
		5,754,711
Deduct:		
Excess of purchase price (including expenses) of 52,600 shares of former Class B common stock of The Frito-Nicolay, Dancey Company over stated value of shares redeemed	612,907	
Dividends:		
Cash — on basis of $0.80 per share	567,737	
5% stock dividend, at fair market value on date declared in 1957, applicable to shares issued in 1958 prior to ex-dividend date	1,702	1,182,346
Retained earnings at end of year (Note 3)		$ 4,572,365

See accompanying notes.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors,
The Frito Company:

We have examined the accompanying balance sheet of The Frito Company and consolidated subsidiaries at December 28, 1958 and the related statement of income and retained earnings for the year then ended. With respect to the consolidated operations of The Frito-Nicolay, Dancey Company for the period from December 30, 1957 to May 3, 1958, we were furnished with the report of another firm of independent accountants. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examination and the report of other independent accountants referred to above, the statements mentioned above present fairly the financial position of The Frito Company and consolidated subsidiaries at December 28, 1958 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Dallas, Texas
March 17, 1959

THE FRITO COMPANY AND CONSOLIDATED SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 28, 1958

1958

1. Acquisition of subsidiaries — principles of consolidation

As of May 3, 1958, all of the outstanding common stock of The Frito-Nicolay, Dancey Company (formerly Nicolay-Dancey, Inc.) was acquired in exchange for 202,304 shares of common stock of the Company. For accounting purposes the transaction has been considered a pooling of interests and accordingly the statement of income includes the operations of The Frito-Nicolay, Dancey Company for the full year. The statement of income also includes all other wholly-owned subsidiaries, including (from dates of acquisition) five companies acquired in 1958 (four merged by December 28, 1958) for $1,083,447 cash and 9,915 shares of common stock.

The excess cost of former subsidiaries, since merged, over the value of their net assets at dates of acquisition is carried as a deferred charge ($271,240 at December 28, 1958) and is being charged to income over periods of not more than sixty months. Amortization for the current year was $97,067.

2. Property, plant and equipment

Property, plant and equipment at December 28, 1958 and the related accumulated depreciation were as follows:

	Cost	Depreciation
Land	$ 700,977	$ —
Buildings	3,878,082	702,089
Manufacturing equipment	4,995,726	2,007,683
Transportation equipment	1,781,062	803,060
Office equipment and miscellaneous	1,073,950	464,378
Construction and shop orders in process	491,556	—
	$12,921,353	$3,977,210

Depreciation and amortization provided during the year amounted to $991,346.

For federal income tax purposes, depreciation on certain properties acquired subsequent to December 31, 1953 is computed under the double declining balance method, with a provision out of income for the taxes so deferred.

3. Long-term debt

On December 23, 1958, the Company borrowed $4,500,000 on a 5% unsecured promissory note. Interest is payable quarterly and principal payments are due in semiannual instalments on May 1 and November 1; each such instalment being $300,000 in 1960, $375,000 in 1961, $400,000 in 1962, $425,000 in 1963, with $1,500,000 or the unpaid balance being due on May 1, 1964. In addition, on or before 120 days after the end of its fiscal years 1960, 1961 and 1962, the Company is required to make payments on the loan in an amount equal to 33⅓% of the net profits (as defined) for such fiscal year. Such additional payments are not to exceed $500,000 with respect to 1960 and $600,000 with respect to 1961 and 1962. As to any year in which such additional payment is less than the maximum amount, any deficiency shall be added to the maximum for the next succeeding year. Among other things, the Company further agrees to maintain a current ratio of not less than 1.5 to 1 and net working capital of not less than $2,500,000 and to maintain a ratio of shareholders' equity to total debt of not less than 1 to 1 from the date of the loan to December 31, 1960 and 1.25 to 1 thereafter. At December 28, 1958, this latter ratio was .95 to 1; however, any default by reason of the failure to maintain a 1 to 1 ratio during the period from December 28, 1958 through March 22, 1959 was waived by the lenders. The loan agreement also prohibits the purchase of the Company's own stock and restricts the payment of cash dividends each year after December 28, 1958 (except for the dividend payable January 30, 1959) to 50% of net income for the year plus $200,000 for the full period of the loan; however, so long as the Company shall maintain net working capital of not less than $3,000,000, the Company may use for the payment of dividends sums not to exceed in the aggregate the then accumulated and undistributed portion of the aforementioned 50% of net income accrued after December 28, 1958. Under the most restrictive of these provisions, no portion of retained earnings at December 28, 1958 was available for the payment of dividends.

The balance of the Company's long-term debt at December 28, 1958 consisted of various instalment notes aggregating $241,177 with $60,255 being due within one year.

4. Stock options and common stock

Under options granted to an officer in 1957, options as to 2,000 shares of common stock were exercised in 1958 at $13.90 per share and options as to 7,000 shares were outstanding at December 28, 1958 at $13.90 per share.

In 1957, the Company adopted a stock option plan, which is to remain in effect until April 29, 1963, under which options may be granted up to 10% of the outstanding shares of common stock of the Company. Options granted under the plan shall be for a period not exceeding 10 years at prices which are not less than 85% of the fair market value on date of grant. Options so granted become exercisable in annual instalments or on such other basis as the Company may determine. At December 28, 1958, there were outstanding under the plan options to 38,875 shares of common stock at prices ranging from $13.85 to $17.93. Options as to 5,885 shares became exercisable during the year at prices ranging from $13.85 to $17.93 and options as to 1,075 shares were exercised at prices ranging from $13.85 to $14.53.

No charge has been made against income in accounting for the stock options.

On March 16, 1959 the shareholders approved, effective March 17, 1959, a two for one split of the common stock with a reduction in the per share par value from $5 to $2.50 and an increase in the authorized shares to 3,000,000 shares. The above information relating to stock options has not been adjusted to give effect to the stock split.

5. Capital in excess of par value

Changes in capital in excess of par value for the year are as follows:

Balance at beginning of year	$711,762
Add:	
Excess of fair market value over par value of 9,915 shares of common stock issued in acquisition of subsidiaries	211,087
Excess of option price over par value of 3,075 shares of common stock issued on exercise of stock options	27,382
Excess of stated value of 28,399 shares of Class B stock of The Frito-Nicolay, Dancey Company over par value of 2,840 shares of its Class A stock issued on conversion	14,198
Excess of fair market value over par value of 100 shares of common stock issued as a stock dividend (declared 1957)	1,202
	$965,631
Deduct:	
Transfer to common stock account in connection with the exchange of 202,304 shares of common stock of The Frito Company for all the outstanding common stock of The Frito-Nicolay, Dancey Company	733,120
Miscellaneous	1,481
	734,601
Balance at end of year	$231,030

6. Commitments and contingent liabilities

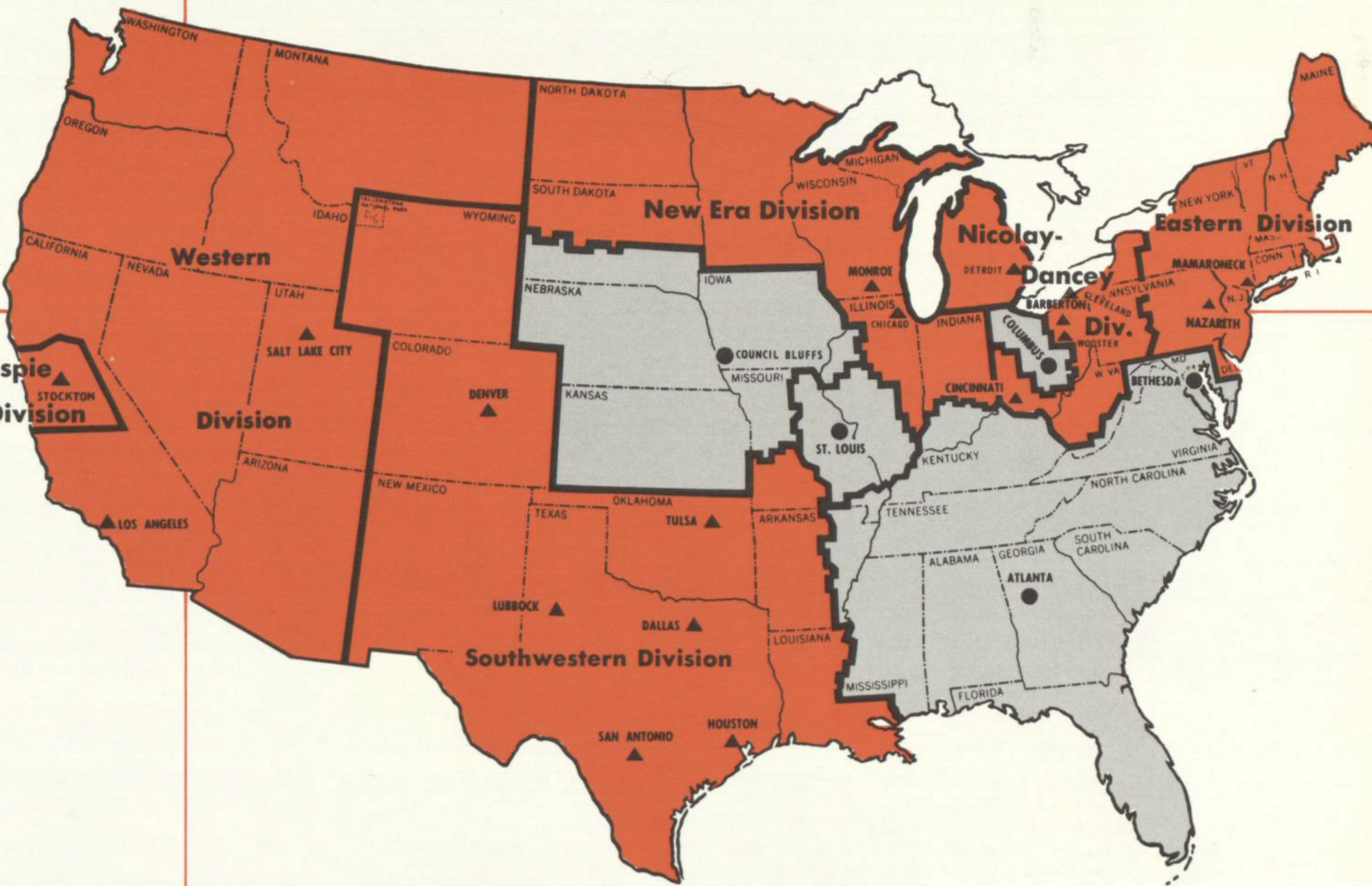
As of December 28, 1958, the Company and its consolidated subsidaries had lease agreements covering various properties with aggregate annual rentals of approximately $415,000. Such leases were for periods not exceeeding 10 years from original or renewal dates.

The Company had endorsed with recourse or had guaranteed notes payable (to banks) of affiliates, licensees and others in the aggregate amount of $145,423 at December 28, 1958.

7. Employees retirement plan and trust

As amended in 1958, the Company's retirement plan is a noncontributory trusteed plan covering approximately two thirds of the employees; such covered employees who have attained their twenty-fifth birthday and completed three years of service are eligible to participate. Monthly benefits at normal retirement age (65) equal 50% of average basic monthly compensation for specified years less primary insurance under social security plus as to hourly-paid employees, additional payments up to $20 per month based on length of service. Such benefits are payable for life or a minimum of 10 years.

The unfunded past service cost at December 28, 1958 was approximately $460,000 which, as to each employee, is being paid over the remaining years to retirement age. The estimated annual cost of the amended plan is $426,000 including past service costs.



AREA DISTRIBUTION

THE FRITO COMPANY

Southwestern Division • Dallas, Texas
Western Division • Los Angeles, Calif.
Crispie Division • Stockton, Calif.
New Era Division • Chicago, Ill.
Nicolay-Dancey Division • Detroit, Mich.
Eastern Division • Mamaroneck, New York

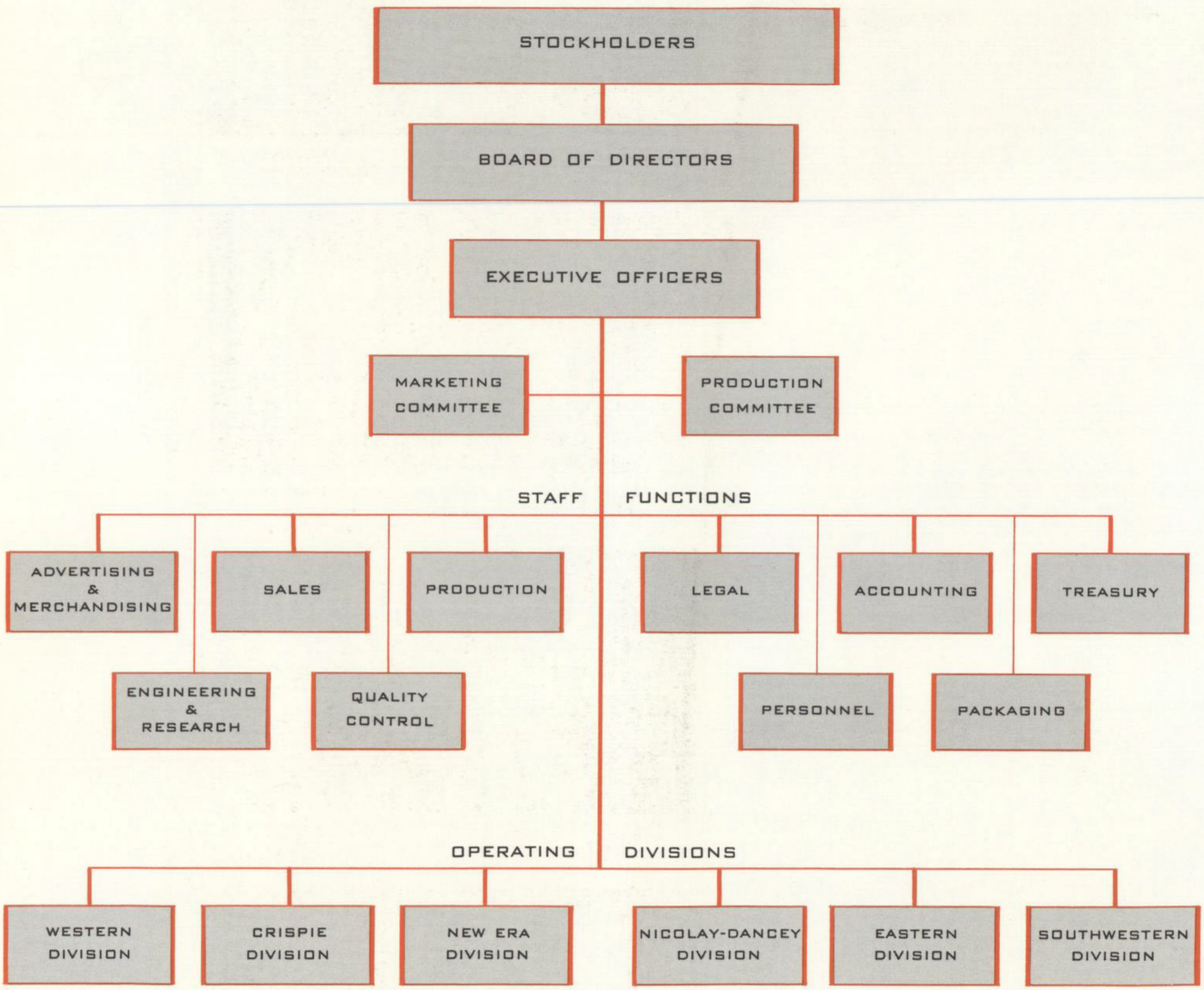
LICENSEE SALES TERRITORY

Constituting Independent Franchises Granted

Frito Midwest Company • Council Bluffs, Iowa
So Good Potato Chip Company • St. Louis, Mo.
Frito Columbus Company • Columbus, Ohio
H. W. Lay & Company • Atlanta, Ga.
Frito Company of Hawaii, Ltd. • Honolulu, Hawaii

▲ Frito Company plants
● Licensee plants

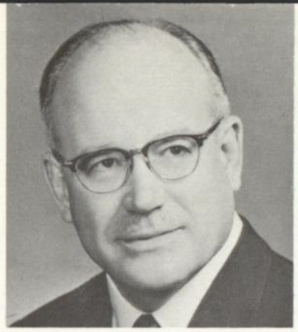
COMPANY ORGANIZATION STRUCTURE



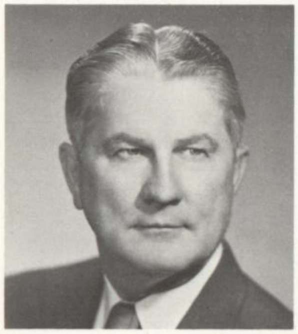
1958

THE FRITO COMPANY
Officers

C. E. DOOLIN
President



JOHN D. WILLIAMSON
Executive Vice President

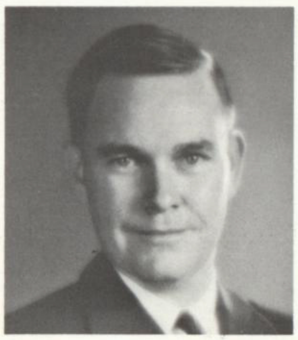


FLADGER F. TANNERY
Senior Vice President

E. L. NICOLAY
Vice President

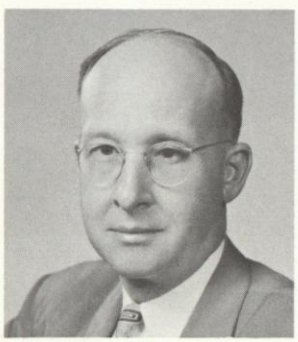
R. V. DANCEY
Vice President

JACK JOHANNES
Vice President
and General Counsel

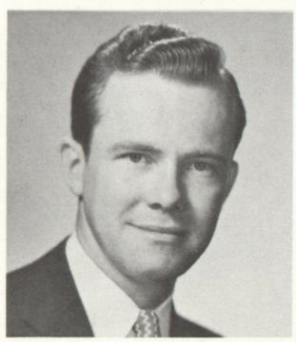


JOHN R. MCCARTY
Vice President

H. H. ROUSSEAU
Vice President



EMIL JURICA
Treasurer



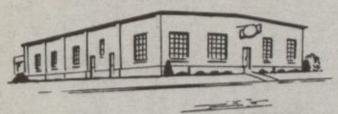
W. LAMAR LOVVORN
Secretary and Controller

Tulsa, Oklahoma

THE FRITO COMPANY EXECUTIVE OFFICES

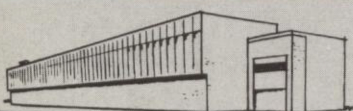
Exchange Bank Building, Dallas, Texas

Salt Lake City, Utah

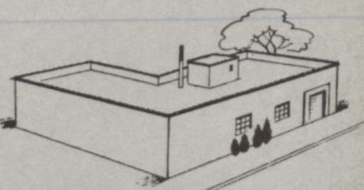


Monroe, Wisconsin

Denver, Colorado

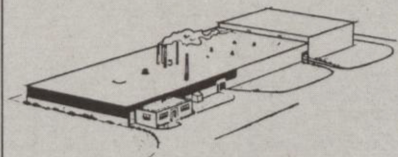


Chicago, Illinois



Mamaroneck, New York

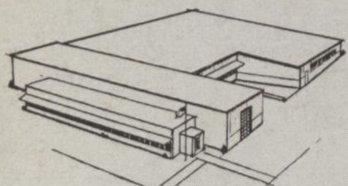
Detroit, Michigan



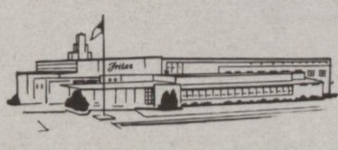
Wooster, Ohio

Barberton, Ohio

Cincinnati, Ohio

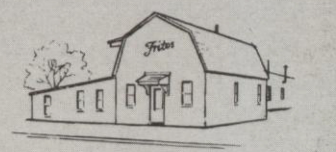


Cleveland, Ohio

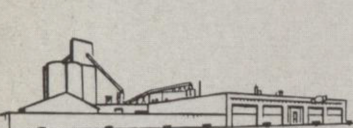


Los Angeles, California

Stockton, California

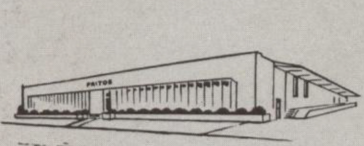


Nazareth, Pennsylvania

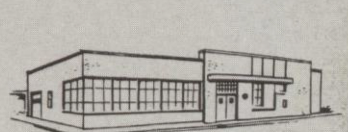


Dallas, Texas

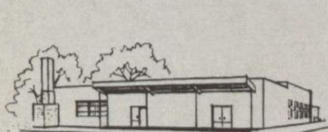
San Antonio, Texas



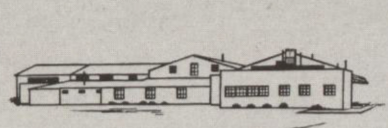
Houston, Texas



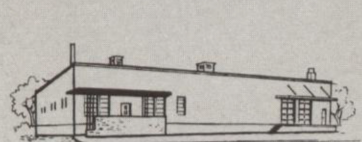
Lubbock, Texas



Baken•ets



Engineering and Rack Dept.



Champion Foods

Texas Vegetable Oil

THE FRITO COMPANY PLANTS